The Real Estate TRENDS

JUNE 30 1961

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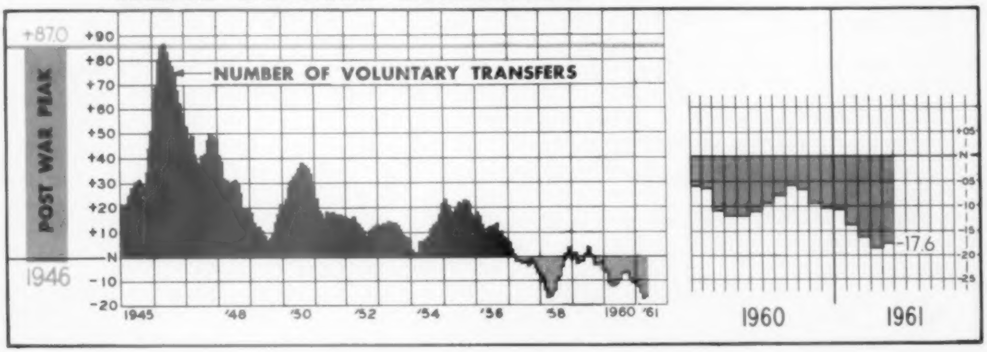
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

POSTWAR LOW

FOR the first time since September 1960, real estate activity has not decreased from the previous month. The average number of voluntary real estate transfers per 10,000 families in the major cities of the United States increased slightly from 67.9 in April to 68.4 in May. This was 18.2 percent below the long-term normal trend in April, and 17.6 percent below in May. The chart below shows these variations since 1945. The straight line marked "N" represents the average number of voluntary transfers of real estate that would normally take place each month were it possible to eliminate cycles. The recent lows of 18.2 and 17.6 below normal are seen on this chart to be the lowest in the postwar period, and are the lowest that real estate activity has been since 1939. The encouraging note, however, is that the decline stopped last month. It is about time for us to see the beginning of the increase in real estate activity forecast for the last part of 1961.

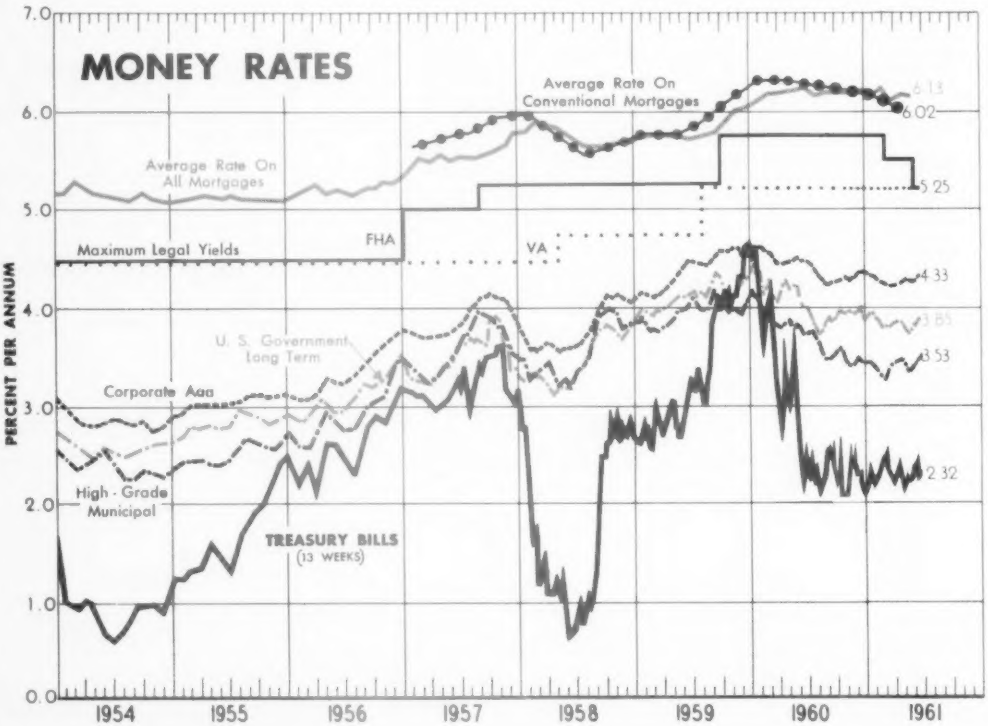
Other signs of the present weakness in the real estate market are the continued declines in building costs and the selling price of existing real estate. As shown on page 344 the selling price index of an existing single-family residence in a well-maintained neighborhood was 128.8 in April. This is down from 128.9 in January and 130.2 in January a year ago. On page 342 we list the building costs of the six standard Wenzlick houses. All have decreased since December 1960, when we last reported these figures. The largest decline,

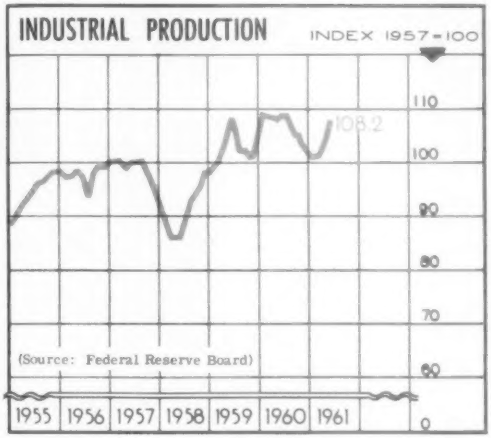
REAL ESTATE ACTIVITY



$124, has been recorded on the six-room frame house. The decreases have come about because of changes in the price of lumber, both finished and unfinished, and tile.

Although interest rates on mortgages and other indebtedness have fallen from their peaks of January 1960, none has fallen quite so far as in 1958. The important interest rates are charted below. The average interest rate on recorded mortgages in 11 major cities in the United States in May fell slightly to 6.127 percent, from 6.144 percent during April. The big news about mortgage interest rates has been their stability in the face of the increasing supply of mortgage money, the decline of housing starts and real estate activity, and the decline in other interest rates in the money market. VA-guaranteed mortgages have maintained their maximum of 5-1/4 percent. The maximum rate on FHA-insured mortgages, however, has been reduced by two successive drops from 5-3/4 percent to 5-1/4 percent. The new rate applies to all applications for home mortgage insurance received by FHA on or after May 29, 1961. It does not apply to outstanding commitments or to applications received before that date. With mortgage market interest rates over 6 percent, the major influence will be to shift funds to more profitable investments. On the other hand, the supply of mortgage money is ample, so much so that this may bring interest rates down some more.



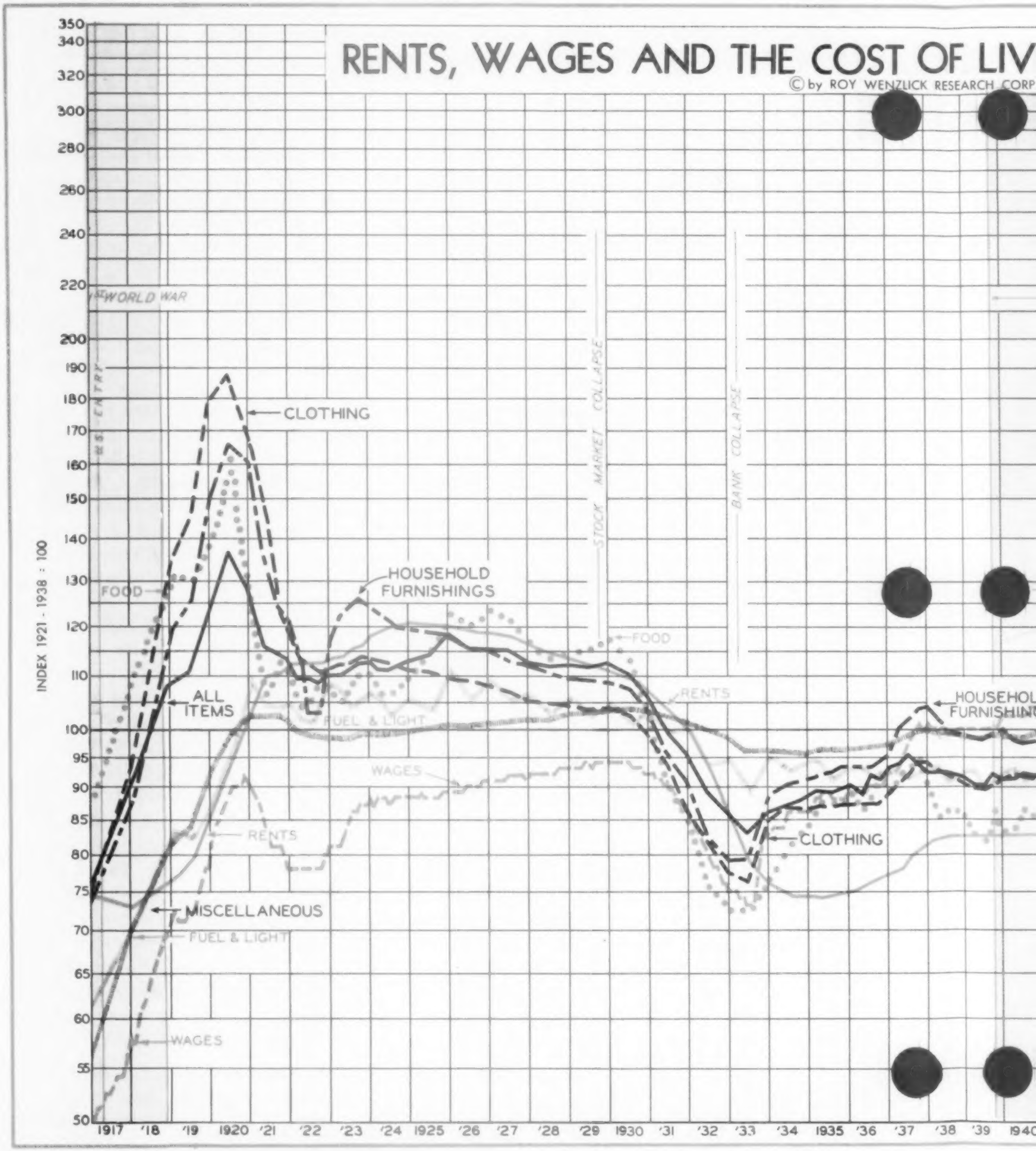


In the March Real Estate Trends, pages 119 and 120, we pointed out that FHA applications for insurance and VA appraisal requests should be good indicators of changes in housing starts because the requests and applications precede FHA- and VA-inspected starts by about three to four months. At that time there was no sign of recovery. We are happy to report that although the 12-month moving total of one- and two-family private nonfarm housing starts has not turned up, the moving total of FHA applications and VA appraisal requests has turned up. We should, therefore, see an increase in the monthly level of housing starts over last year in the near future.

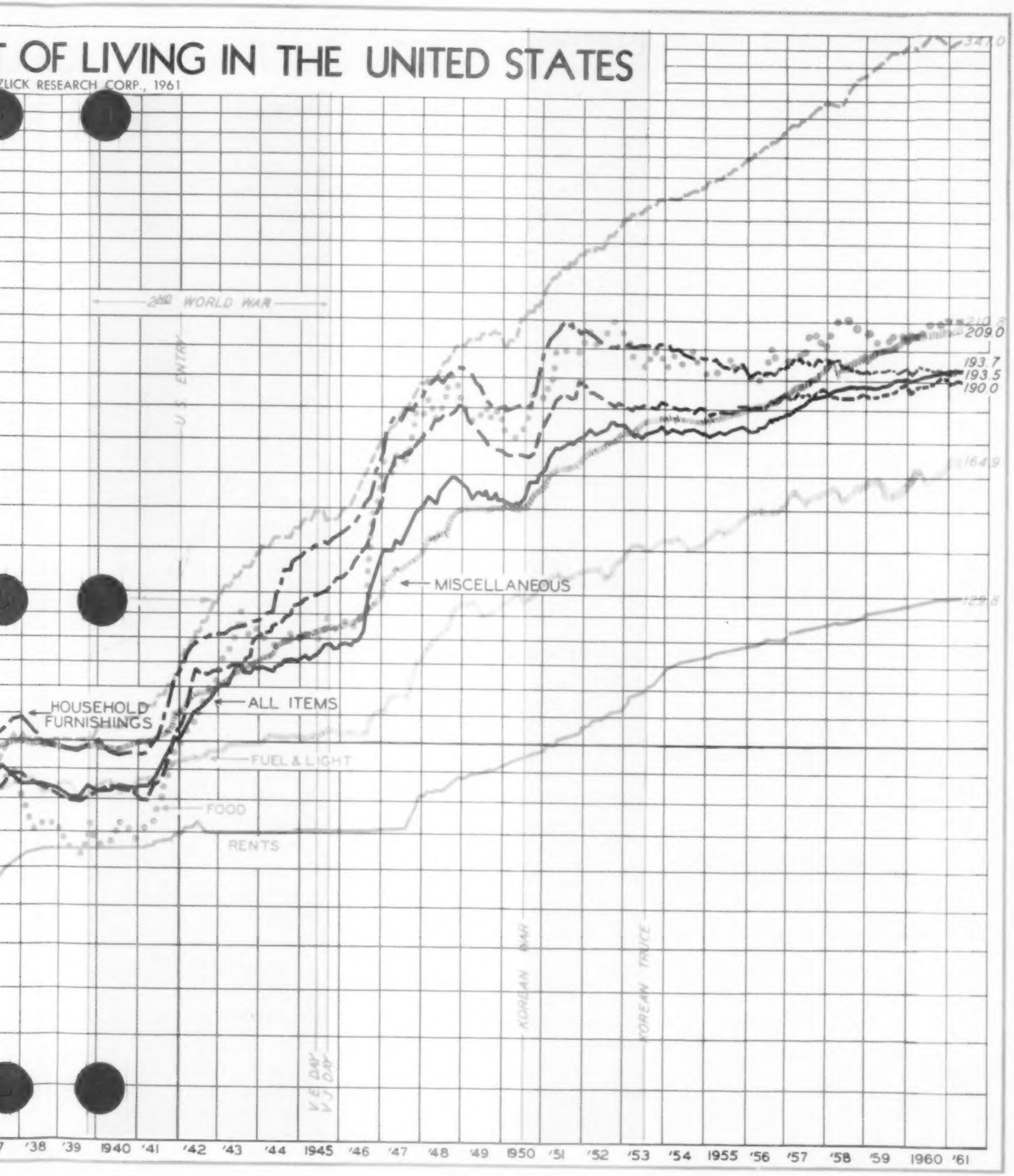
In the last few recessions construction has led the economy on its path to recovery. This time, however, the first really strong indication of recovery has come from industrial production. As can be seen on the small chart above, the level of industrial production has increased steadily from the low of 102.1 in February to 108.2 in May. A discouraging sign, however, is the 6.9 percent of the labor force that is unemployed (see small chart, above right). There has been little change since December last year. As a rule, the percent of the labor force unemployed turns down about the same time that the level of business activity turns up. Since industrial production has now turned around, this should indicate some ease in unemployment in the near future. There is, however, speculation that we are faced with a new type of unemployment situation. The high level of unemployment is not only a cyclical problem but one of shifting men from tasks made obsolete by rapid changes in technology to new, more skilled employment. Part of the money in the Kennedy administration depressed area bill is intended for the retraining of workers unemployed for this reason. We will have to see how it works out for it will be a very difficult task to retrain some who have worked in one occupation for 30 years.

Good news for everyone is that the cost of living has temporarily leveled off. Rents, wages, and the cost of living are charted from 1917 to date on pages 340 and 341. These are indexes based on the 1921-38 average equal to 100.

(cont. on page 343)



RENTS, WAGES AND THE COST OF LIV
© by ROY WENZLICK RESEARCH CORP
INDEX 1921 - 1938 = 100
1ST WORLD WAR
U.S. ENTRY
STOCK MARKET COLLAPSE
BANK COLLAPSE
CLOTHING
HOUSEHOLD FURNISHINGS
FOOD
ALL ITEMS
RENTS
FUEL & LIGHT
WAGES
MISCELLANEOUS
HOUSEHOL FURNISHIN
350
340
320
300
280
260
240
220
200
190
180
170
160
150
140
130
120
110
100
95
90
85
80
75
70
65
60
55
50
1917 '18 '19 1920 '21 '22 '23 '24 1925 '26 '27 '28 '29 1930 '31 '32 '33 '34 1935 '36 '37 '38 '39 1940


T OF LIVING IN THE UNITED STATES
ZLICK RESEARCH CORP., 1961
2ND WORLD WAR
U.S. ENTRY
V E DAY
V J DAY
KOREAN WAR
KOREAN TRUCE
MISCELLANEOUS
HOUSEHOLD FURNISHINGS
ALL ITEMS
FUEL & LIGHT
FOOD
RENTS
347.0
210.8
209.0
193.7
193.5
190.0
164.9
129.8
'37 '38 '39 1940 '41 '42 '43 '44 1945 '46 '47 '48 '49 1950 '51 '52 '53 '54 1955 '56 '57 '58 '59 1960 '61

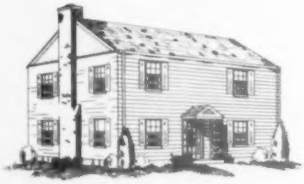
INCREASES IN BUILDING COSTS SINCE 1939

St. Louis

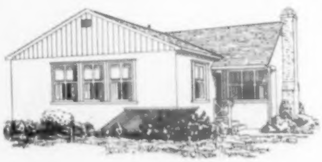
June 1961

SIX-ROOM BRICK HOUSE (FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foot)
Cost today: $20,781
(90.0¢ per cubic foot; $13.67 per square foot)
INCREASE OVER 1939 = 224.7%

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $17,547
(70.4¢ per cubic foot; $15.06 per square foot)
INCREASE OVER 1939 = 222.6%



SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $ 3.44 per square foot)
Cost today: $19,341
(79.6¢ per cubic foot; $11.72 per square foot)
INCREASE OVER 1939 = 241.1%



6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $ 3,392
(28.0¢ per cubic foot; $ 3.42 per square foot)
Cost today: $11,043
(91.1¢ per cubic foot; $11.13 per square foot)
INCREASE OVER 1939 = 225.6%

STANDARD BRICK RANCH HOUSE
Content: 16,250 cubic feet
840 square feet
Attached garage - 200 square feet
Without garage - $13,710
(84.4¢ per cubic foot; $16.32 per square foot)
Garage - $1,059
($5.30 per square foot)

CONTEMPORARY FRAME RANCH HOUSE
(Dry Wall)
Content: 12,285 cubic feet
1,170 square feet
Carport - 320 square feet
Without carport - $14,168
($1.15 per cubic foot; $12.11 per square foot)
Carport - $665
($2.08 per square foot)

*Costs include full basement.

(cont. from page 339)
After continuously increasing throughout 1960, the cost of living reached 193.7 in December. With an insignificant drop to 193.5 in January, the index then returned to 193.7 in February and has remained there through April. As this was being written, it was reported that the index of the cost of living decreased slightly again in May. The two items that have increased in cost the most since 1921-38 are food and miscellaneous items, which include medical and other service expenses. Food, clothing, utilities, and housefurnishing costs have steadied in 1961. Rents maintain their climb, as do the miscellaneous items. Wages are now 347 percent of their 1921-38 average. This shows that not all the wage increases have been eaten up by increases in costs. Wages have increased by about 150 percentage points more than the cost of living.

It is now clear that a very liberal omnibus housing bill is going to be passed into law, probably by the time you receive this bulletin. Some of the main provisions are as follows:

Long-term, low-interest 100 percent loans for rental and cooperative housing projects containing five or more dwelling units. The interest rate would be established at the discretion of the FHA Commissioner below the market rate, but not lower than 3-1/8 percent.

FHA may insure mortgages on low-cost housing under a new program. A small downpayment is required and the maximum term of the loan is 35 years.

An indirect subsidy for both of these programs is a $1.5 billion authorization for FNMA to purchase under special assistance those mortgages that private lenders do not accept.

Regular FHA-insured mortgage downpayments will be eased again. The new version requires 3 percent down on the first $15,000 valuation of the house, 10 percent on the next $5,000, and 25 percent on all over $20,000. The maximum mortgage has been raised to $25,000.

Several billion dollars have been allocated for urban renewal and slum clearance grants, college dormitory loans, community facilities programs, and mass transit systems.

What does this mean to you? If you are in appraising, there will be a steady flow of urban renewal projects to keep you busy. If you are in construction, there will be a steady flow of college dormitories, community facilities, housing for the elderly, public housing, and other public buildings to be built. Except for some provisions for rehabilitation loans, the mortgage lender doesn't seem to profit much from the current bill. All this may be, but it is hard to see how inflation can be stemmed with such increased Government expenditures coming just as business is about to recover on its own.

ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET*

REAL ESTATE ACTIVITY

Number of Voluntary Real Estate Transfers per 10,000 Families

	1959	1960	1961
Ja	82.8	78.2	74.4
F	84.2	77.6	71.9
Mr	81.3	73.9	69.5
Ap	81.7	72.9	67.9
My	81.7	72.9	68.4
Jn	83.5	73.8	
Jl	85.6	75.4	
Ag	83.6	76.6	
S	83.3	78.3	
O	80.1	77.3	
N	80.5	75.4	
D	80.4	74.5	

68.4

MORTGAGE ACTIVITY

Number of Mortgages Recorded per 10,000 Families

	1959	1960	1961
Ja	70.6	63.0	62.0
F	72.3	64.0	61.5
Mr	70.5	63.5	61.1
Ap	72.4	63.9	61.6
My	71.4	62.5	62.2
Jn	72.1	63.0	
Jl	72.7	63.8	
Ag	71.7	65.3	
S	70.9	65.6	
O	67.2	63.1	
N	66.6	63.6	
D	65.7	62.8	

62.2

REAL ESTATE SELLING PRICE

Index: 1947-49 = 100

	1959	1960	1961
Ja	128.2	130.2	128.9
F	127.8	130.8	128.9
Mr	128.2	130.6	128.9
Ap	128.9	130.1	128.8
My	129.8	129.4	
Jn	129.8	129.8	
Jl	129.4	130.8	
Ag	129.3	130.8	
S	129.3	130.6	
O	130.1	129.6	
N	130.0	129.0	
D	130.2	128.9	

128.8

RESIDENTIAL RENTS

Index: 1921-38 = 100

	1959	1960	1961
Ja	125.4	127.3	129.4
F	125.6	127.4	129.5
Mr	125.7	127.5	129.6
Ap	125.9	127.7	129.8
My	125.9	127.9	
Jn	125.1	128.1	
Jl	126.2	128.3	
Ag	126.3	128.5	
S	126.5	128.6	
O	126.7	128.8	
N	126.9	129.2	
D	127.2	129.3	

129.8

COST-TWO-STORY SIX-ROOM FRAME HOUSE

(St. Louis)

	1959	1960	1961
Ja	$18,963	$19,607	$19,455
F	18,963	19,609	19,429
Mr	18,989	19,595	19,339
Ap	19,004	19,443	19,338
My	19,004	19,244	19,330
Jn	19,132	19,243	19,341
Jl	19,141	19,240	
Ag	19,157	19,209	
S	19,157	19,152	
O	19,204	19,514	
N	19,518	19,514	
D	19,578	19,465	

$19,341

AVERAGE INTEREST RATE

Recorded Mortgages in 11 Major Cities of the United States

	1959	1960	1961
Ja	5.717%	6.099%	6.139%
F	5.723	6.156	6.214
Mr	5.714	6.154	6.094
Ap	5.706	6.170	6.144
My	5.690	6.189	6.127
Jn	5.681	6.209	
Jl	5.691	6.124	
Ag	5.720	6.129	
S	5.787	6.141	
O	5.908	6.148	
N	5.974	6.143	
D	6.027	6.191	

6.127%

*RED LINE SHOWS MONTHLY TREND OF INDICATORS FROM JANUARY 1959 TO THE PRESENT